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WEEKLY AIR MAIL EDITION

SAN MARTIN 66

TEL. 34 DEFENSA 5462

BUENOS AIRES, AUGUST 10, 1948

YEAR VIII — No. 391

PROPIEDAD INTELECTUAL No. 268.043

THE FINANCIAL SITUATION

THE BELGIAN FRANC CRISIS

The latent crisis in our availabilities of Belgian francs, the development of which we have been following in this survey during the last few weeks, and which had already arisen in part about a fortnight ago when the Banque Nationale de Belgique instructed Belgian banks to open credits for exportation to our country only against deposit of the full amount of the operation in that currency, broke out in all its consequences last Friday. On that day, the Central Bank took two very important steps. One of them, made known to the public in some of Saturday's newspapers, cancels the regulations regarding automatic dispatch of prior-exchange permits, established by Circular No. 987 of June 23 last, granted for imports from the Belgian franc area, and advises that in future all import permit applications for that area will be subject to prior study. Therefore, before purchases are made in that area, it will be necessary to submit an application in Form 104-D and request the Central Bank's authorization to conclude the purchase. In last week's issue we had already announced the probability of some measure of this nature being taken. In any case, although the official announcement was only made at the end of the week, in the practice it was already being applied since about a fortnight ago, precisely due to the measures taken by the Banque Nationale de Belgique.

The other measure, however, which was made known to all banking institutions on Friday afternoon last, is still more important. It is established therein that:

All credits opened and prior payments in Belgian Francs are subject to the Central Bank's authorization. In the case of prior coverages, the Central Bank should be informed, on form 2358, of the corresponding number of form 78 whereby the opening of the credit was authorized. Applications for prior coverage already submitted to the Central Bank's consideration, will have to be submitted again individually, also on form 78 in each case, indicating the date on which the respective credit was established.

But most important of all is that the Central Bank's prior authorization must be requested (on form 1723) even in the case of transfers based on LIQUIDATED CUSTOMS CLEARANCE CERTIFICATES, which it is intended to effect or which will be liquidated as from the date of the measure. The exchange rate at which the respective customs-clearance certificate was liquidated and its equivalent in men must also be stated on such applications.

The amount of the customs clearance certificates liquidated on a spot basis, and also that of liquidated future sales contracts, pending transfer abroad, must be recorded on form 1791.

It is regrettable that the Central Bank should prefer to continue surrounding itself by an impenetrable hermetism, despite having to adopt these measures, instead of acquainting at least the persons involved of all the facts regarding the present situation in Belgian francs; the reasons behind the present disturbing measures and the policy that it intends to follow in future in this connection. Some statement in this direction is all the more necessary inasmuch as this is already the second case wherein measures of this kind are taken in connection with a certain currency (the other case was, of course that of the U\$S) and also the second time that a conflict seems to have arisen with a country with which we have clearing and overdraft agreements concluded in due course between the respective Central Banks (the first was naturally, the case of Switzerland, which has not yet been settled).

These measures may be quite understandable and might be considered justified insofar as they affect credits to be opened in future. If it is a fact, as it seems to be, that we no longer have availabilities of Belgian francs and if we refrain from creating them either through sale of our products to Belgium at prices which that country would be inclined to accept, or through the sale of gold, the natural consequence is a limitation in the placing of orders for Belgian products and, consequently, the submittance of all new orders to the Central Bank's prior study which, it may be presumed, will balance any future purchases with the amount of Belgian francs still available. Accepting our exchange control system, which has been inherited to a large extent by our present Central Bank, those measures appear logical within the framework of the system.

But such reasoning cannot be applied to cases where credits have already been opened and, less still, to those in which the goods have already been introduced (i. e. for which customs clearance certificates have already been issued). Everything we

have said a few months ago in connection with the U\$S crisis, is applicable to the present case. Once a credit has been opened on the basis of the pertinent prior-exchange permit and, furthermore, once the goods financed under such credits have arrived in the country, there is a Central Bank commitment to meet those undertakings. Otherwise, what other meaning could the granting of prior exchange permits have, excepting the obligation to provide the devisen in question, and that such devisen have been reserved for the purpose of meeting these obligations, at their maturity? If this were not the case, the prior-exchange permit has no meaning and could very well be replaced by a mere entry for statistical purposes. In that case, importers and/or banks would be forced to procure for themselves the devisen they need to comply with the strict obligations enforced by the opening of credits, or run the risk of suffering the consequences if they did not meet such commitments.

SIMILARITY WITH U\$S SITUATION

The Central Bank's communication to the banks with regard to the Belgian francs is, in part, an almost textual paraphrase of the circular issued by the Bank at the time of the U\$S crisis. The text of that communication, dated May 14, 1948, was reproduced in our No. 379. Among other instructions the Central Bank also informed then that:

"It has been decided that the foreign transfers which it is desired to make by virtue of customs clearance certificates liquidated or which may be liquidated as from this date, will require this Bank's prior authorization."

And again in its circular dated May 19, it repeats the same concepts (see No. 380 for the full text):

"When it is desired to make a transfer abroad of funds corresponding to certificates liquidated against cash, as well as of those corresponding to liquidation of futures contracts, your bank must request, before putting such operations through, this Bank's authorization, on form No. 1723, a copy of which is attached."

The similarity is ominous.

It is indeed feared that the present situation with regard to Belgian francs is not different to that of the U\$S. In any event, the fact that even transfers based on customs certificates which have been or are to be liquidated, are no longer effected automatically, as they should be, but remain subject to a new authorization by the Central Bank, means a break with usual customs in international banking and reveals that there exists a situation similar to that which arose in May with regard to the U\$S.

What has happened is nothing but a natural development of the situation which the Central Bank should have foreseen. The truth is that we have overdrawn our Belgian franc accounts, just as we did in the case of the U\$S. And the measures to solve the situation have again been taken only after the fact — in spite of the complicated control system established — and not foreseeing natural precautionary measures which would have avoided the development of a very disagreeable situation.

In this connection, we must beg our readers' indulgence if we quote, in the following paragraphs, the opinion we had already expressed before on this situation. We do so merely to show that pure logic indicated that it could be easily foreseen that this situation would arise, even without having at our disposal the Central Bank's enormous statistical and economic mechanism and without having the Central Bank's detailed knowledge of the facts on the basis of applications for prior-exchange permits.

We had already stated in No. 383 of June 15, that is, before the recent measures with regard to devisen were taken (on June 23) when commenting on one of the Central Bank's weekly balance sheets:

"The steady decline noticeable in the account 'Currents with Gold Guarantee', to which is added now that recorded in 'Other Currencies', is not uninteresting; it seems that these variations are, to a certain degree, the expression and consequence of the displacement which was being prepared in the orientation of our foreign trade, namely, the replacement of the USA by countries with clearing agreements as sources of supply. Should this be the case, and if at the same time exportation is not revived to its former levels, the consequences will also be a drainage of our availabilities in currencies other than U\$S."

When the Circulars of June 23, 1948, were made known, we immediately pointed out what has already become a fact insofar

the Belgian franc is concerned, as a consequence of the granting of automatic prior-exchange permits. In our No. 335 of June 29, 1948, we arrived at the conclusion, with regard to Circular 987, after stating that greater emphasis was given through same to imports from countries with which we have signed clearing agreements, that:

"While this is a natural development and the fact that greater importance is given to the balancing of our trade with these countries is welcome, two consequences arising therefrom should not be overlooked: the first is the possibility that as permits are granted automatically for some imports from those countries, our credit balances with same might become debit balances, especially if the purchases made by those countries diminish."

This is exactly what has happened. Deprived of the possibility of buying the elements necessary for our industrialization in the USA — iron and steel, other raw materials or semifinished products, machineries, etc. — it seems that the stream of purchasers, increased artificially by the prevailing inflation, has turned towards the Belgian market. It thus happens that in the short space of one month an account that favoured us in the amount of m\$ 110 millions has become unfavourable. The present exact amount of the account is not known; perhaps the Central Bank knows it. It is estimated in sources which we believe are in a position to calculate it with certain accuracy, that the amount actually overdrawn is about 3,000 million Belgian Francs, or m\$ 300 millions. If this were the real figure, it means to say that not only has Belgium covered the overdraft it was granted, of m\$ 110 millions, but that on our side, we have made full use of a similar concession of m\$ 110 millions, foreseen in the agreement signed with the Banque Nationale de Belgique, and placed orders in that country for about m\$ 80 millions more. We do not know if purchases have really attained such a high figure. But what now seems certain is that not only have we made full use of the overdraft but also, that we have drawn in excess of same on the account between both countries. Hence the precautionary measures taken by the Banque Nationale de Belgique.

FUTURE PROSPECTS FOR OUR INTERNATIONAL CREDIT.

We already stated last week that these measures were a direct consequence of our defaulting on credits granted us by the USA. From this viewpoint, the Central Bank's new measures are still more regrettable. They put an end to a period which with all its faults, was a great one for the country; it was the time in which our country won its high reputation in the world of credit. We again beg our authorities to do everything possible to recover that reputation as soon as possible. Credit is destroyed much more easily than it is reestablished. Credit, a word derived etymologically from 'credere', means that others believe or trust in the word engaged, that commitments undertaken will be paid on their maturity and under the conditions agreed upon. If that trust is destroyed, credit ceases. Everyone will demand then full cash payment before accepting orders for goods and even before shipping same. International trade would never have been perfected and its full development would have been impossible without this international instrument of credit. If this trust has already been destroyed in two cases, how can we demand that we be considered worthy of credit or trust in any other case? The immediate consequence, therefore, of these deplorable measures is that our international credit has been destroyed. It means that the countries with which we have not signed clearing agreements, will cease to grant us credits to cover orders which we have placed and will demand full payment before accepting their execution. It means that the countries with which we have made clearing agreements will wait anxiously until the amount agreed upon has been attained and will cut credit immediately, provided they do not seek other means to demand payment before the accounts are overdrawn (as is the case, for instance, with Brazil, as we reported last week).

It is not possible that such a state of affairs can subsist. We consciously leave aside any considerations of a sentimental nature, of the greatest importance for the country for which the high international esteem which its binding word deserves should carry great weight. But even considering the question from the level of practical objectives, the present situation is extremely embarrassing.

We believe that the entire situation should be studied by the highest authorities, including our parliament. We have abstained so far from giving too much importance to the past. But it must now be admitted that the question of the vanishing devisen must be investigated by the highest authorities. The disappearance of nearly all our US\$ holdings and the undertaking of a very high debt with the USA, estimated at about US\$ 450 to 500 millions, has been explained alleging the need for buying equipment for the development of our economy. However, in the preambles of

Decree No. 22,239 of July 27, 1948, published in the "Boletín Oficial" of August 6, it is stated in reference to the authority granted to YPF to buy 40,000 tons of pipe from an Italian firm.

"That the Dirección General de Yacimientos Petrolíferos Fiscales is meeting serious difficulties in its normal development, due to the lack of specific materials for its industry, particularly with regard to different types of tubing (drill-pipe, casing, line-pipe, etc.), of which it has such a reduced stock that it is not enough to cover its immediate needs; That such difficulties arise mainly from the restrictions imposed on imports due to the lack of free currencies, from the abnormal situation of the US industry, which is the main supplier of this material and that same is subject to export quotas."

The purchase, therefore, is caused not only by the situation ruling in the US industry, but also by the difficulties that "arise mainly from the restrictions imposed on imports due to the lack of free currencies". If one of our most important and basic State industries has been unable to obtain in the past the devisen necessary for its normal development, the time has come to investigate thoroughly the use that has been made of such devisen and to ascertain whether exchange permits have really been granted according to the relative importance of industries within our national economy as a whole.

To this must be added a total reform of our sales' policy — and, unfortunately, there still is no sign that the importance of same has been understood. A few brief examples will suffice: We have achieved the total destruction of world markets for our linseed oil. While the USA and Canada now have exportable linseed surpluses, in spite of the fact that previously the former imported from Argentina 60% of its total drying-oil requirements in the form of seed, we have insisted on payment of the prices fixed on a certain occasion. Canada recently sold linseed-oil at a price equivalent to m\$ 1.83 per kilo FOB, and linseed at the equivalent of m\$ 77 per 100 kilos FOB (to Holland); in the meantime, we insist on the old price of m\$ 2.23, even though IAPI is buying the oil at m\$ 0.99 from the industrialist. We do not intend to undertake now a discussion of our price-policy; nevertheless, it may be wondered whether it is a good policy to adhere to prices fixed at very high levels which yield our competitors very good profits but which exclude us from the markets. We have retained our maize in the belief that other countries would have to buy here. In the meantime, South Africa is exporting maize, and the USA will also be able to do likewise, as will also other countries, while the price has dropped by one third, from m\$ 31.50 to 19.60 per 100 kilos (for December delivery) in the Chicago market. The same is valid for many other of our export goods. Our May export figures (latest available, although we already are in the month of August) show that our shipments have dropped considerably (see further on). And at the same time our exports are preferably directed to countries which possibly pay us high nominal prices against the use of credits, but which restrict their exports to Argentina. The case of Spain is typical. During the first 5 months of 1948 we exported to Spain goods valued at m\$ 181.9 millions, against 95.9 millions during the same period of 1947. Instead, imports from that source declined to m\$ 18.1 millions during the first 5 months of 1948, from 22.2 millions during the same period of 1947. The development of our exports to that country is of course to be welcomed; but would it not be important that we receive in exchange some of the goods we need so urgently? And is it not necessary that we develop our trading with other countries, especially with countries that can create for us usable foreign exchange, in order that we may again import? Even if it were only for this reason we must adapt ourselves to the changes that have taken place in world conditions and in world prices. Official statistics show that during the first 5 months of 1948 we have imported from countries using free currencies, 63.1% of our total purchases, against 58.4% during the same period of 1947, and that we exported to same only 18.2% of our total shipments, against 29.8%, in the respective periods.

We can only reiterate what we have often stated here in the last weeks: To carry out the large program we have drawn for the better fulfillment of the country's development, to guarantee our industry's procurement of the materials and machineries it needs, there is nothing more important than to reestablish the sources of generation of foreign currencies which will enable us to accrue again the funds we require and to rebuild abroad the edifice of our credit. The first demands a total reorganization of our export policy. The second the consolidation or at least the conclusion of an arrangement concerning the loans we have forced other countries to grant us.

In the face of the Belgian franc crisis, which has so obviously broken out, no new arguments are needed to underline how urgent it is to take steps in this direction. What is needed now is rapid and decisive action.

NEWS & COMMENTS

NEW DECLINE IN CLEARING CURRENCIES

The Central Bank's balance-sheet as at July 31, 1948, shows a new and not inconsiderable decline in clearing agreement currencies,

which amounted to m\$ 73.3 millions in the last week of the month and to 157.5 millions for the whole month. It is probable that the decline corresponds mostly to Belgian francs.

point we have commented upon extensively under this issue's "The Financial Situation". The fluctuations recorded in other

currencies and under the Gold account, were rather insignificant, as the following table shows, (in millions of m\$u):

| | 31.7.48 | 23.7.48 | 30.6.48 | DIFFERENCE: | |
|--------------------------------|---------|---------|---------|-------------|-----------|
| Gold: | | | | 31.7/30.6 | 31.7/24.7 |
| in the country | 542.6 | 542.6 | 563.7 | — | — 21.1 |
| abroad | 77.4 | 78.0 | 56.9 | — 0.6 | + 20.5 |
| Total Gold | 620.0 | 620.6 | 620.6 | — 0.6 | — 0.6 |
| Other Currencies | 292.0 | 278.9 | 295.8 | + 13.1 | + 3.8 |
| Sub-Total | 912.0 | 899.5 | 916.4 | + 12.5 | — 4.4 |
| Currencies with Gold Guarantee | 1,712.6 | 1,785.9 | 1,970.1 | + 73.3 | + 157.5 |
| TOTAL | 2,624.6 | 2,685.4 | 2,786.5 | + 60.8 | + 161.9 |

RELATIVELY SMALL MOVEMENTS IN THE INTERNAL MONETARY SPHERE

The movements which have taken place in the internal monetary sphere during the month of June were rather restricted. Although the limitation on credits ruling during the first half of the month could not be maintained, the subsequent expansion, which in itself was not unimportant, was much lower than that recorded during June when the Central Bank's Rediscounts & Advances expanded by almost m\$u 1,000 millions. Although the importance of this policy in the progress of inflation, has apparently at last been recognised, nevertheless, it appears to be impossible to restrict completely this expansionist movement.

The larger decline in the circulation of Mortgage Bonds, which was especially noticeable during the last week of July, shows

the public's lack of interest in investment in these bonds. At the same time it is a sign of such investors' increasing need of new funds to continue with their ordinary business. These bonds have been used mainly as a temporary investment instrument of funds not required immediately for the development of business. The continuous decline in the circulation of such bonds shows the increasing need of financing means. The amount circulating is now very small and is clear evidence that these bonds were never able to replace the old mortgage bonds very extensively, the latter having been at one time the most outstanding form of investment in the country. At the beginning of our banking reform, it was hoped that the latter could be replaced to a large extent by the new Mortgage Bonds issued by the Central Bank.

The fluctuations in the pertinent accounts are shown below (in millions of m\$u):

| | 31.7.48 | 23.7.48 | 30.6.48 | DIFFERENCE: | |
|--|----------|----------|----------|-------------|---------|
| Rediscounts & Advances | 12,002.2 | 11,944.1 | 11,834.8 | + 58.1 | + 167.4 |
| Collateral Security Banking Loans | 3,179.0 | 3,184.1 | 3,143.6 | + 5.1 | + 35.4 |
| Advances on Mortgage Bonds | 2,151.2 | 2,148.8 | 2,050.2 | + 2.4 | + 101.0 |
| Monetary Circulation | 6,076.5 | 5,977.8 | 5,955.1 | + 96.7 | + 121.4 |
| Deposits in other banks for account Central Bank | 14,267.1 | 14,258.3 | 14,184.7 | + 8.8 | + 82.4 |
| Mortgage Bonds | 312.3 | 321.7 | 327.7 | — 9.4 | — 15.4 |

FULL LIBERTY FOR CAPITAL MOVEMENTS IN URUGUAY

On August 4 the Banco de la República Oriental del Uruguay took a long awaited step: it liberated the entry of capitals to Uruguay from all bureaucratic measures. This measure had already been predicted by H. E. the Finance Minister of the neighbouring country, Sr. Escr. Ledo Arroyo Torres, during an interview granted to this survey reproduced in our No. 384, when he declared the "irrevocable position of allowing absolute liberty to the entry and departure of capitals" and that the declaration which the Banco de la República still demanded at that time was really "a simple declaration for statistical purposes". The new measure taken by the Bank shows that it is a reform in the dispositions in force to adjust them precisely to this purpose, as formerly they might have led to believe that other purposes were also contemplated. Circular No. 53/25 of that Bank's Foreign Trade Department, reproduced hereunder, does not require further explanations.

REF: Control of entry of capitals through the free market. For the pertinent purposes, we beg to inform you that this Bank has decided, by virtue of the faculties conferred on it by the Law of May 29, 1931, on control of foreign exchange operations, to abolish the dispositions contained in our Circular of June 1, 1944, referring to the entry of capitals.

Consequently, Banks and Banking Houses are empowered to expedite freely the purchase of foreign exchange by the free market, without any prior procedure through this Bank, except when they are currencies of countries with which we have clearing agreements (England, France and Belgium), in which cases it is necessary to apply for the corresponding authorization, in accordance with the regulations in force.

For statistical purposes only it will be necessary that Banks and Banking Houses report to this Bank the purchases made of foreign exchange, in the forms applicable to that purpose.

With regard to the deposits in Uruguayan Pesos, stock exchange securities and title deeds which at this date are credited to accounts "Subject to Control", they may be considered as freed without further procedures.

NEW NEGOTIATIONS WITH URUGUAY ON PAYMENTS AGREEMENT

In Nos. 385 and 387 we reported at length on the negotiations presently underway between Uruguay and our country for the conclusion of a payments agreement. In the second of the above-mentioned issues we expressed our opinion in the direction that the differences which still existed between both countries were rather of a formal nature, and this opinion has been confirmed by the trend of subsequent negotiations. The Uruguayan draft of the agreement provides for the establishment of an m\$u account in the Central Bank. In the meantime, a counterproposal was made by our Central Bank, suggesting that all accounts should be carried in o\$u instead of in Argentine m\$u. The revised Uruguayan project provided for a gold guarantee for our m\$u; the counter proposal suggests therefore a gold guarantee for the o\$u, in which currency the accounts would be carried, for account of the Banco República. Both counterproposals, however, have been rejected by that institution because the regimen in Uruguayan pesos is not completely convertible into gold.

in Uruguay, and because the gold guarantee would create a responsibility of such magnitude for the Banco de la República, that it does not believe it could assume it.

Therefore, a completely new proposal has been submitted, based, naturally, on the previous projects, in which our Central Bank has again suggested certain changes in minor points and which are, in our opinion, merely of a formal nature so that, in principle, they should be acceptable for the Banco de la República.

The new project again establishes as principle the use of the m\$u for all payments, under an account to be established in our Central Bank, which may be effected directly between both central banks or through authorized banks in Uruguay or in our country.

In principle, it is once more established that the refund of the balance cannot be demanded unless the total of same exceeds 1 million m\$u. Should this figure be exceeded, the debtor Institute must reimburse the surpluses in full or partially in lots of m\$u 0.5 millions, through conversion into free currencies to be fixed by joint agreement between both banks. Our Central Bank has suggested a slight change in this point, namely, that all surpluses may be transformed but not necessarily in lots of m\$u 0.5 millions.

Furthermore, it is proposed that such deliveries be deferred in any event until the end of each full year of duration of this agreement. On the other hand, the debtor may amortize the total amount at any time, and here our Central Bank has suggested that this option should also be used for conversion to free currencies at any time. Similarly, if the total amount exceeds m\$u 15 millions, delivery of the surplus devisen may be demanded at any time, even if the full year has not expired. The previous proposal fixed the limit at m\$u 30 millions. Our Central Bank proposed that in the event the amount of m\$u 15 millions was not enough for the development of operations, that it could be enlarged. The interest rate to be paid quarterly on the amount of the balance, is also maintained as in former proposals at 3½%, as well as the provisions referring to the use of gold payments instead of devisen, and to the fixation of exchange rates for the different operations according to the nature of same. The possibility of paying freight-rates of Argentine or Uruguayan ships in Argentine m\$u, is also contemplated, although only when transportation is made in both countries' ships. It is also established that goods bought from third countries may be paid under this account only when both banks approve in each individual case. A special article again establishes both banks' obligation to endeavour to balance the account as much as possible, either stimulating purchases or the tourist trade. Our Central Bank desires that this disposition should be complemented by the possibility of agreeing on special exchange rates. The duration of the agreement is fixed at one year, but it will be tacitly extended for a further year unless denounced with three months prior notice.

Finally, it seems that the Banco de la República's original demand for a gold guarantee on the value of the balance, has not been maintained.

Evidently, the differences that still persist are now very unimportant, so that an understanding on this important project

FINLAND AGAIN ONLY BUYER IN HIDES MARKET

The volume of activities in the hides market last week was again small. The only operation of any importance was that concluded once more with Finland, which on this occasion bought 11,500 good cattle hides at m\$ 227 per 100 kilos. The U.K. has withdrawn from our market, at least temporarily, alleging that present prices are too high. This is possibly connected with the situation in the US hides markets which showed some signs of weakness last week.

OTHER FINNISH PURCHASES

Finland has also been active in other markets, and was almost the only country to operate. The contract signed with Finland referred only to tallow purchases, of which it bought 500 tons at US\$ 591 per ton in drums and/or kegs. However, the purchase of foragés is being negotiated, a point which we had already indicated as a Finnish objective before the trade agreement was signed. The operation involves about 45,000 tons of oilseed cakes and about 35,000 tons of millfeed. The price has been the main obstacle in this last line: Finland offers a price about 10% lower than that paid recently by Denmark. So far, the offer has not been accepted.

BARTER OPERATION WITH INDIA BELIEVED TO INVOLVE IMPORTANT QUANTITIES

Trade circles believe that the barter operation of grains for jute which has been arranged with India, may involve quite important quantities and a figure of about 360,000 tons has been mentioned. However, we have still not been able to establish what kind of grains and what proportions are involved in this business.

NEW CHANGES IN WOOL TRADING

Although it had been established in principle that wool should be sold in future only against payment in US\$, an exception has been made in trading with Holland — with which country we have concluded a trade and payments agreement. In effect, payment in Dutch Guilders will be accepted for wool exported to that country.

PRINCIPLES OF THE REGULATION ON THE MAIZE CROP

The regulations applying to IAPI's purchases of this year's maize crop have been issued at a very late date. When maize was not subject to purchase by the official monopoly, it was customary for buying to begin already as from the 1st of May of every year, when the largest part had already been harvested. Last year a scale of fixed bonuses was established, increasing the bonuses for every month the purchases were deferred. That scale started to operate at least after June 30, 1947. This year an important change has again been introduced. A scale of bonuses is also established, but, it does not come into force until the date the sale has been made and it is provided that no bonuses will be paid during the first 30 days following the date of the contract. Inasmuch as the regulation was only published on August 8, and as at least 8 days if not more will lapse before actual signing of contracts is commenced, it means that no bonuses will be paid before September 14, at the earliest. Thus, the increase of the internal maize price, which has been fixed at m\$ 14 on railroad car dock-basin, should be compared to that ruling on September last year, when m\$ 13.35 per 100 kilos was paid, including bonuses, etc.

The new regulations stipulate that after the contract is signed, the first 30 days are free. If acceptance is postponed further still, a bonus of m\$ 0.07 per ton and per day is payable during the first 60 days and thereafter m\$ 0.09 per ton and per day, during the next 90 days. Subsequently, m\$ 0.115 per ton and per day will be payable. Thus, assuming a contract is concluded on August 15 and the acceptance is postponed until January 4, 1949, a price of m\$ 14.87 per 100 kilos on railroad car dock-basin is then payable, which may be compared to m\$ 14.15 payable under similar conditions on January last.

Inasmuch as the delay in issuing these regulations is attributable solely to IAPI, it would be only equitable that payments be made as from an earlier date, for instance, May 1 or 15 last.

Prices are understood for shelled maize, bagged and stored. For bulk sales, a rebate will be made in the amount of m\$ 0.75 per 100 kilos.

Middlemen buyers will receive m\$ 0.45 and brokers m\$ 0.14 per 100 kilos as full compensation.

NO DEFINITE SOLUTION YET FOR SUGAR INDUSTRY'S PROBLEMS

In spite of the fact that the sugar harvest is in full swing, no definite solution has been proposed yet for the problems affecting this industry. The conditions applied last year have been revalidated temporarily, maintaining the sugar-cane price at the level of m\$ 28, and freezing wages and the subsidies paid to the industry, (although the cane-growers have already been granted credits to pay their workers, on these terms, the industry so far has only received promises, albeit these are quite definite). Nevertheless, it should be evident that this is merely a transitory solution. The old commission appointed to study costs, formed mainly by Central Bank functionaries, is at this moment studying production costs in the sugar districts, in order to submit definite proposals to the Economic Council. On this basis, and perhaps after negotiations have been held with the interested parties, the final solution for

The cane-growers have had to pay higher wages to their workers for the cultivation of this year's crop, namely, the 25% wage increase agreed upon last year and which was applied to this year's cane crop. Furthermore, the workers are becoming more insistent in their demands for a new wage increase, and have submitted their request for a 50% increase. It is quite clear that the wages paid in the sugar industry are under the standard wages actually paid in Tucuman for other tasks. The pay of the average sugar worker amounts to m\$ 7.20 per day, whereas other activities pay m\$ 10 and more.

We still believe that it would have been preferable to settle the whole question before harvesting commenced. We do not overlook the fact that, naturally, the present method may have some advantages, considered from the viewpoint of immediate effects. Once the harvest is in full swing, final settlements might be lower than if they had been made before harvesting commenced, and workers have so far remained calm, with some well-known exceptions. However, we do not think it possible that the industry, cane-growers and workers continue to work indefinitely on a year to year basis. Some solution must be found, at least in principle, which will give this industry some peace and an assurance of uninterrupted work. We continue to believe that such a settlement may be found only by allowing sugar prices to rise. We have already shown, on a previous occasion, that such increases will not be onerous for customer budgets. On the other hand, the change in world conditions under many aspects, and the development of national finances, would demand a general reduction in all the subsidies paid. Thus, if it is not intended to increase prices immediately to the level of full costs, a scale of increases should be prepared, distributing same over two or three years, so that prices may be increased gradually during that time until they cover all production costs. In our opinion, an arrangement of this kind is the only settlement possible for that industry, on the long run.

SUSTAINED INCREASES IN WORLD SUGAR PRICES

The rise in quotations of the "world" sugar price in New York, i. e. of the price of raw sugar FOB Cuba, for consumption outside the USA, continued throughout last week. Up to the end of the week spot price improved a further ten points to US\$ 0.044 per lb. against 0.043 at the end of the preceding week, while March 1948 contracts improved to 3.90 against 3.86.

The main factors in this rise were the indications arising from the negotiations between the US Department of Agriculture's sugar branch and the Cuban sugar interests, on purchases to be made for the US Army's requirements. These negotiations were postponed at the end of last week so that the Cubans could make consultations in their country, and will be renewed to-day. A special influence is exerted by the fact that the USA's domestic beet-sugar production will be much lower than estimated previously, namely, about 18% below the 1947 crop which amounted to 1,884,000 tons. On the other side, the continental US cane sugar crop is estimated to be about 14% higher than the 1947 crop, which amounted to 375,000 tons. Under these circumstances, the US negotiators dealing with Cuba want to be assured that additional quantities will be made available to the USA, in case of need, out of the free Cuban quota for the world markets. It seems that in exchange for a Cuban guarantee of this kind, the US is prepared to guarantee the absorption of enough Cuban sugar to prevent any troublesome surplus from appearing between January 1, 1949 and the time when the new crop becomes available. This, in turn would indicate that there would be no need for Cuba to curtail sugar production in 1949, as it originally intended to do. The volume of the US Army's purchases will depend on the importance of the general guarantee to be granted to Cuba. Therefore, it seems that the new purchases of the US Army might be smaller than was originally intended, when the purchase of between 350,000 and 400,000 tons was under discussion. (As reported previously, the Army had already bought over 1 million tons on earlier occasions). The Chief of the US Department of Agriculture's sugar branch, had mentioned the amount of 240,000 tons as the most probable volume of the new purchase, but although no definite figures have been established yet, some sugar interests believe that the operation will be nearer 280,000 tons. In any case, the probability of the US quota for Cuban sugar imports being increased again, and the proposed guarantee against large surpluses, has naturally strengthened the market. Hence the new rises in quotations.

SHARP DECLINE IN MAY EXPORTS

Our foreign trade figures for the first five months of 1948 were made public last week. It is very regrettable that in spite of the very justified declarations made by H. E. the President of the Republic on the great importance of statistical data, these should continue to be published with so much delay. This is evinced by just one instance: In our previous issue we quoted British foreign trade figures for the month of May. This information was received by steamer mail. The publication in question gives a very detailed account of trade exchange, not only under each heading of imports and exports, but also indicating figures in the case of the more important countries trading with Great Britain. One week later we receive the statistics or our own foreign trade during that same month, but in a very syncretical manner which makes it impossible to follow the development of our trade, under each heading. We believe that if the indications and statistics are compiled much more rapidly and in greater detail,

that many of the problems that affect our economy could be foreseen earlier and the necessary measures taken at the proper time.

This all the more so, as our foreign trade seems to have reached a decisive point: The May figures show that our exports have undergone a sharp contraction. While import figures have also declined, the reduction is far less pronounced in this case. The situation is clearly shown in the following table:

| | Exports: | | Imports: | |
|-----------------|---------------|--------------------|---------------|--------------------|
| | In 1,000 tons | In millions of msn | In 1,000 tons | In millions of msn |
| 1948 | | | | |
| January | 1,030.5 | 658.0 | 1,059.7 | 589.5 |
| February | 1,038.2 | 618.3 | 929.6 | 486.7 |
| March | 909.9 | 566.2 | 1,188.3 | 520.2 |
| April | 809.9 | 440.2 | 1,418.6 | 514.2 |
| Monthly average | 947.4 | 570.2 | 1,144.0 | 522.0 |
| May | 646.2 | 428.2 | 1,080.3 | 437.6 |

The main declines in the amounts exported (in percentages with respect to April 1948) have occurred in the following groups: hides (44.6%); cereals (28.1%); "other agricultural products", which group includes principally vegetable oils (34.1%); forestal products, especially quebracho extract (32.2%); and sundry manufactured goods (23.7%); dairy products (38.9%); live animals (58.3%). The only increase took place in flour and wheat by-products, which rose from 14,700 to 67,400 tons, as a natural consequence of the extended stagnation which had previously occurred in the exportation of these products, already commented here at the time.

The import quantities are influenced to a large extent by the fuels purchases, a group which always amounts to about 50% of our total import tonnage. These declined in May to 543,600 tons against 718,700 tons in April, but the shrinkage also includes iron, steel, etc. Imports (67,100 against 85,400 tons), machinery (33,300 against 38,900 tons), lumber, (51,300 against 99,200 tons), earth, stones, etc. (285,100 against 376,900 tons). The only increases were recorded in the groups: Foodstuffs (22,000 against 13,200 tons); Tobacco (1,200 against 600 tons); Textiles (7,300 against 4,100 tons); Chemical and pharmaceutical products (27,500 against 19,200 tons); Rubber, (400 against 300 tons) and "Others" (24,900 against 14,900 tons).

CLEARING AND FREE CURRENCY AREAS

With one exception, namely, imports from Dutch Possessions in Central America, which are made up of petroleum and its by-products, while our exports to that market are practically nil, we have classified all the countries with respect to which official statistics give only the figures of imports from or of exports to those countries, respectively, but not both data, under the heading "Other Destinations", in addition, naturally, to the figures already shown in the official statistics under these headings. Inasmuch as this heading covers, both countries with which we have signed clearing agreements and countries which have not made such agreements with Argentina, we have not established the balance, and we deal with it apart from both groups. The statistics for the first 5 months of 1948, in comparison to those for the same period of 1947, show that the balance of the grand total of our trade interchange has remained almost constant during both periods. However, a discrimination such as that made in the following table clearly shows an unwelcome displacement between clearing agreement countries and free currency countries. Our exports to the first named group rose sharply and absorbed 70.8% of all 1948 exports, against 60.4% during the same period in 1947; whereas our imports from the same countries only amounted to 31.8% (against 36.6%) during the first 5 months of 1948. It is evident, of course, that this pattern does not really agree, with the explanation which is always given with regard to clearing agreements, i. e. that they are agreements which in principle provide for the balance of our foreign trade accounts. The sharp surplus of our export figures in our trading with such countries, amounting to msn 1,101.1 millions for the first 5 months of 1948, indicates this very clearly.

On the other hand, we have a sharp unfavourable balance in our trade with free currency countries. The value of our exports to these countries amounts to less than one third of the imports value. This explains the sharp deficit in this trade, and is the main factor in our present exchange situation; The total deficit with such countries amounted to msn 1,103.7 millions, whereas last year, it only reached 388.2 millions, in the same period. Within this trade interchange, the most important factors are purchases made and imported from the USA; trading accounts with that country show a deficit of not less than 986.6 and 450.3 millions, in the periods surveyed of 1948 and 1947 respectively. While in 1948 our imports from that source were almost doubled, our exports, on the contrary, dropped, although to a small extent. [Although the import surplus from countries which must be paid in US\$, especially those providing us with petroleum, has contributed to the scarcity of US\$, the present situation has been provoked mainly by purchases made directly in the USA. Nor can it be said, in our opinion, that this circumstance is explained by the inconvertibility of the £. As the figures show, our export surplus to the U.K. for the first 5 months of 1948, only amounted to msn 320.9 millions. Even assuming that these had been totally converted, the deficit in our trade with hard currency countries anyway would have reached 782.8 millions. And while naturally, this convertibility would have meant a certain relief, the main

factor has been the purchasing policy, as expressed in these figures. Further considerations on this aspect of the question may be found under "The Financial Situation".]

OUR TRADE WITH THE U.K.

A special feature in this question is our trade with the U.K. It will be remembered that Great Britain granted us a loan of £ 100 millions to purchase the railways, which loan should be covered, in principle, by the value of our exports to that destination during this year. However, the figures of our balance of trade indicate that it is improbable that this will be achieved, unless exports to the U.K. are stepped up quite considerably. Our export surplus for the first 5 months of 1948 amounted, as we said before, to msn 320.9 millions. At this rate, the surplus for the whole year would amount to 770 millions, leaving an uncovered balance of about 580 millions. This figure corresponds to 9 months trade surplus, calculated at the rate of the first 5 months of 1948. There are two ways to cover this amount: The first is that foreseen in the "Andes" agreement, according to which the amounts not covered by March 31, 1949, by our exports to the U.K. must be refunded in £. At the present rate, this would amount to about msn 387 millions or £ 28 millions, i. e. 28% of the total amount received from the U.K. The other possibility is, of course, that in any new agreement to be made with the U.K. for 1949, a clause be included to the effect that the export surplus will be paid in £ to the British Treasury until the account arising from the £ 100 millions loan is extinguished.

This, of course, would have great effects on the possibilities that might arise for us from ECA's US\$. Referring to that part of the agreement on ECA between the U.K. and the USA, reproduced last week in our comments on the meat question, the British Chancellor of the Exchequer, Sir Stafford Cripps, stated in a speech delivered before the House of Commons on July 5, that it meant "that if for instance the USA agreed with such country — say Canada or the Argentine — a price level at which a certain class of goods was to be sold, then we would not pay more than that price. A valuable provision to prevent international profiteering out of ERP aid."

This naturally would imply that in future the U.K. would pay us our exports with ECA US\$, always assuming a prior agreement between our country and the USA on the level of prices to be demanded. However, on the other hand, Sir Harold Wilson, President of the British Board of Trade, declared recently that the U.K. would not pay countries which were in debt with the U.K., with ECA funds. From this view-point, the method of financing the purchase of the ex-British railways is already affecting our possible income in US\$, inasmuch as the agreement between the U.K. and the USA was signed on July 6, 1948, and if our debt with the U. K. did not exist, our deliveries to that country could already be paid in US\$. But if the facts mentioned above regarding the repayment of this debt, are not radically modified in the coming months, the effects might be of a much longer duration and the yielding of US\$ to our country might be postponed for a still longer period.

THE LOSSES IN TRANSPORTATION

H. E. the President of the National Economic Council fully confirmed our estimates on the losses experienced by railway transports. In the speech delivered at Rosario. In effect, he named a figure of msn 1.8 millions per day, which amounts to a loss of msn 657 millions during the year. It is now a long time ago that we estimated the railways' losses at msn 700 millions. It should be mentioned, however, that railway circles estimate that those losses probably reach higher figures at present. Since we have assumed the responsibility for the management of the railways as from July 1946, the losses so far incurred, according to Sr. Miranda's figures, amount to about msn 1,300 millions or, expressed in another way, the railways' cost to us, so far, amounts not to msn 2,500 millions but to msn 3,800 millions. In view of these figures, it is quite understandable that the railways' former British owners were so eager to sell, inasmuch as same had long since ceased to be an asset and had instead become a definite liability. Nevertheless, it is regrettable that such eagerness was not adequately used to obtain an increase in the prices, at least for meat, at the time the "Andes" agreement was signed, as we pointed out in our two preceding issues. If to the above is added the heavy deficit suffered by the Buenos Aires City Transport Corporation which H. E. the Minister of the Interior has estimated at msn 430 millions by the end of this year, the transport system will have cost us over msn 2,000 millions at the end of 1948.

Up to now, the cost of transport has not been raised. Nevertheless, users and non-users alike are paying indirectly for the difference between the system's receipts and disbursements, since the financing of that difference is made through banking loans, i. e. by increasing inflation.

DISTRIBUTION OF OUR FOREIGN TRADE ACCORDING TO COUNTRIES

The following figures show in greater detail the composition of our foreign trade according to the participating countries, during the first 5 months of 1948 and 1947, respectively (in millions of msn):

| Total | 5 MONTHS 1948 | | | 5 MONTHS 1947 | | |
|-------------------------------------|-----------------|-----------------|--------------------|-----------------|-----------------|--------------------|
| | Exp. 2,708.9 | Imp. 2,528.2 | Balance + 180.7 | Exp. 1,926.0 | Imp. 1,647.0 | Balance + 179.0 |
| I. Clearing countries: | | | | | | |
| TOTAL | 1,919.2 | 803.9 | + 1,101.1 | 1,165.3 | 803.7 | + 553.0 |
| Belgium | 200.6 | 113.9 | + 86.7 | 83.5 | 59.6 | + 23.9 |
| Luxembourg | 14.2 | | | 8.6 | | |
| Bolivia | 13.7 | 2.3 | + 11.4 | 19.4 | 3.0 | + 16.4 |
| Brazil | 154.1 | 160.0 | - 5.9 | 113.1 | 151.9 | - 38.8 |
| Spain | 181.0 | 18.1 | + 162.8 | 95.9 | 22.2 | + 73.7 |
| France | 177.5 | 43.1 | + 134.4 | 133.6 | 56.3 | + 77.3 |
| India | 57.6 | 20.7 | + 36.9 | 17.2 | 19.4 | - 2.2 |
| Italy | 367.2 | 128.0 | + 239.2 | 95.5 | 78.1 | + 17.4 |
| Paraguay | 17.8 | 13.3 | + 4.5 | 11.8 | 12.1 | - 0.3 |
| U. K. | 555.2 | 234.3 | + 320.9 | 525.5 | 148.8 | + 376.7 |
| Switzerland | 178.0 | 70.2 | + 107.8 | 61.2 | 52.3 | + 8.9 |
| II. Hard currency countries: | | | | | | |
| TOTAL | 493.0 | 1,596.7 | - 1,103.7 | 573.9 | 982.1 | - 388.2 |
| Canada | 10.3 | 54.8 | - 44.5 | 7.3 | 39.7 | - 32.4 |
| Colombia | 12.0 | 2.2 | + 9.8 | 5.5 | 3.1 | + 2.4 |
| Chile | 31.5 | 21.3 | + 10.2 | 49.2 | 22.0 | + 27.2 |
| USA | 227.7 | 1,214.3 | - 986.6 | 231.0 | 681.3 | - 450.3 |
| Mexico | 3.0 | 10.4 | - 7.4 | 4.3 | 9.7 | - 5.4 |
| Norway | 10.7 | 15.1 | - 4.4 | 22.4 | 17.3 | + 5.1 |
| Netherlands | 93.3 | 23.7 | + 69.6 | 83.9 | 16.5 | + 67.4 |
| Peru | 58.3 | 14.1 | + 44.2 | 18.9 | 6.5 | + 12.4 |
| Sweden | 14.9 | 80.7 | - 65.8 | 43.0 | 56.5 | - 13.5 |
| South Africa | 4.4 | 10.9 | - 6.5 | 55.4 | 15.8 | + 39.6 |
| Uruguay | 18.0 | 10.7 | + 7.3 | 29.6 | 6.9 | + 22.7 |
| Venezuela | 10.9 | 52.8 | - 41.9 | 21.4 | 31.6 | - 10.2 |
| Dutch Possessions in C. America | — | 85.7 | - 85.7 | — | 64.9 | - 64.9 |
| III. Other Destinations | | | | | | |
| | 296.7 | 127.6 | | 186.8 | 81.2 | |

URUGUAYAN NEWS

(By our own correspondent)

TOWARDS THE NORMALIZATION OF TRADE

Uruguay has been the first South American country to start negotiations with the Anglo-American occupation authorities ruling the Bizonia, for the purpose of renewing trade with Germany, which in prewar years reached considerable significance.

These first dealings, which according to our information are well conducted, have been made by Uruguay's commercial representative in Paris, Sr. Carlos A. Chulow, and would have been received with sympathy and interest by the above mentioned authorities.

Trading would take the form, according to our information, of a kind of barter, facilitated by an interbanking agreement for the clearing of balances, establishing a maximum overdraft of 500,000 Dollars, in order to avoid any possibility of freezing which would be damaging to Uruguay and with respect to which it has had already one experience, certainly not very flattering.

The reestablishment of this trade current would enable this country to place part of its production which to-day has no easy outlet, and in turn, it could obtain certain metallurgical products and certain types of goods, machineries and repair parts, which Bizonia's industry would be in conditions to supply. It should be remembered that the intense prewar trade caused important quantities of German machineries to be placed in Uruguay, and that at present there are no replacement or repair parts for same.

Japan, for its part, is sending a trade mission which would be supported by the US authorities, to South America, and it would attempt to purchase Uruguayan products and to reestablish trading between both distant countries. All this would tend, as stated previously, to normalize trading which was so deeply upset by war without having been reestablished up to now, despite the

time lapsed since the end of hostilities.

It is a well known fact that in America, Uruguay and Mexico still have US\$ reserves, which they try to defend zealously, and therefore they are in conditions to buy from the USA.

In this connection, it is interesting to note the fact — we refer to Uruguay — that even having exchange it is not possible to obtain from the USA all the goods desired. We have already drawn attention to this fact here, with reference to concrete cases. Statements made by travellers and commercial agents and which we have had occasion to hear, lead to believe here that the USA is actively preparing itself to meet any eventuality in international spheres, and that it would be taking precautions in this direction, expropriating a good part of US production. The same reports point out that, due to this circumstance which reduces the volume of production available, the possibility of price rebates is postponed, at least in the near future.

THE ARGENTINE PESO

The Argentine monetary symbol is quoted in the money-changer's shopwindows, at the time of closing this correspondence, at rates which vary, according to the establishment, between 0\$u 31.20 and 0\$u 31.80 per 100 Argentine m\$u.

The step taken by the Central Bank in Argentina fixing the maximum buying prices of foreign currencies over the counter, and establishing an important difference between the rates paid in Montevideo and Buenos Aires, per m\$u 100 in the first and 0\$u in the second market, would have allowed a certain money-changing house in Montevideo, which has agents in the Argentine capital, and which was estimated to have incurred in serious losses due to the drop of the Argentine peso, to compensate part of the damage suffered in the purchase of Arg. m\$u, distributing the difference.

INVESTMENT NOTES

THE STOCK EXCHANGE WEEK

The slight animation in industrial securities which started the end of the previous week continued throughout last week and several shares obtained small profits, especially the *Fábrica Financiera* group. The small purchases were mainly for investors' account. Speculators have operated practically only with their favourites, which are already known, and which were headed by *Pesca*. Transactions were very large and the market also participated actively. Quotations rose to high levels establishing new maximum prices. The shares of *El Globo* and *San Nicolas* recorded fewer operations and a decline in their markets was evident, especially in *San Nicolas*, due to the recent publication of the State lawsuit against the company alleging lack of fulfillment of the concession contract. Quotations dropped about 10%, and transactions were so restricted that only one operation was recorded during last Friday's two rings.

CIFO shares were outstanding in other markets due to a firmness of approximately 10%, together with rumours of a good financial year, which ends on September 30, 1948. The market predicts a dividend equal to last year's, which amounted to 33 1/3% in ordinary shares. The maximum price could not be upheld, due to the market's collection of profits, losing approximately 50% of its rise.

The shares of *Benegas Hnos.* rose from 225 to 255 due to an increased dividend, on which we already informed our readers in our previous issue.

The marked closed the week with slight drops in industrial securities. The volume of transactions was reduced, excepting in *Pesca* and *Globo*, and small fluctuations have occurred in the case of small quantities of shares up for sale. The public's restricted purchases in investment shares were due, according to market opinion, to the activities of some customer groups in speculative securities, and who withdrew, therefore, from other markets. This is also attributed to the forthcoming advance payment on income tax which absorbs a considerable amount of funds.

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Approved For Release 2003/12/01 : CIA-RDP80-00926A000600010004-2

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Approved For Release 2003/12/01 : CIA-RDP80-00926A000600010004-2